

The Missing Link between Corporate Social Responsibility and Financial Performance: Stakeholder Salience and Identification

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ABSTRACT

In this paper, we present a framework for examining the relationship between corporate social responsibility (CSR) and firm financial performance. Ambiguity in empirical studies examining this relationship can be expected given both the ability and motivation of managers to focus their social responsibility initiatives on stakeholders with power, urgency and legitimacy. By considering the ability of stakeholders to reward or punish the firm based on their evaluations of the firm's activities, our model reconciles previously disparate findings in the relationship between CSR and corporate financial performance.

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In considering the actions of a firm, different stakeholders can have differing opinions on what it means to be 'socially responsible.' In her review of the social performance of firms, Griffin (2000) argues that universal measures are inadequate because they fail to take into account the variety of preferences of a range of stakeholders of the firm. This is important because stakeholders' evaluations of the firm and its activities impact

(among other things) the firm's share price, its consumer support, the loyalty of its employees and the amount of attention directed at (or against) it by the media. In the ongoing debate about the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) the potential for stakeholder demands to compete with one another for firm attention and prioritization and the consequences of conflicting demands being (or not being) met are rarely considered (Barnett, 2007). Clarifying the link between CSR and CFP is important as managers balance stakeholders' expectations of the firm to be socially responsible against demands for firm financial performance (Bertels and Peloza, 2008).

We extend the theoretical development of the CSR–CFP relationship by considering the CSR–CFP link across a broad range of stakeholders. Our framework integrates managerial motives with instrumental stakeholder theory (Jones, 1995) to argue that many managers develop social responsibility strategies based on perceived stakeholder priorities. Our model explicitly considers divergent groups of stakeholders and their potentially divergent reactions to the acts of the firm, along with the opposing effects of these reactions on financial performance. In the development of a model of CSR that is

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